



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

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Deficits Expected to Grow Larger

Dear Democratic Colleague:

Tax collections so far this year are coming into the Treasury at a level lower than forecasters estimated just a few months ago. While tax receipts are fickle, if this recent trend continues, it is bad news for the budget, this year and possibly into the future as well.

The administration projected that total tax receipts in fiscal year 2002 would fall by about \$45 billion below the 2001 level. But by the end of March, only halfway through the fiscal year, total receipts were already \$40 billion behind last year (affected to some extent by enactment of the stimulus bill).

Now, collections data for April are looking much weaker than last year. Non-withheld individual income tax payments for April, which are the largest moving piece in tax collections for the year, are down markedly. The administration says that the receipts numbers could jump in the remaining three collection days of this month, or in early May, and that is conceivable. But if this trend continues, the 2002 deficit will be much larger than anticipated.

CBO's baseline, adjusted for the stimulus bill, anticipated a 2002 unified deficit of \$46 billion; not counting the Social Security surplus, the deficit would be \$203 billion. The House Republican budget resolution planned a unified deficit of \$66 billion, and a non-Social Security deficit of \$221 billion. But if the trends in the partial receipts data carry through, it appears likely that the unified deficit will be over \$100 billion, with the non-Social Security deficit at \$250 billion or more.

The administration says that deficits in time of war and recession are acceptable, and in a narrow sense, that is true. Administration spokesmen said repeatedly that their tax cuts would stimulate the economy and solve the problem. But the recession was shallower than economists projected, and the recovery earlier than economists projected, and yet the budget deficit will be worse than anyone anticipated.

What is most troubling about these numbers is what they portend for the budget *after* the war and the recession. The President's budget already invaded the Social Security Trust Fund surplus every year for the next ten years. But with tax receipts below the administration's projections even in a recovering economy, that invasion can only be deeper and longer lasting. The chances of reforming Social Security are thus lessened, with only six years until the baby-boom generation begins to collect benefits.

Last year, Republicans implemented an economic plan that left no margin for error. The budget was weaker than they had projected before September 11, and now that weakening continues even as the economy recovers. This is a warning not to repeat the mistakes of last year, and not to enact even more hefty tax cuts on the promise that they will somehow pay for themselves.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

Tax Revenues Lag, Threatening to Double Deficit

NYT
4.26.02

By RICHARD W. STEVENSON

WASHINGTON, April 25 — Tax revenues have been flowing in to the federal government at far lower levels than anticipated, raising the possibility that this year's budget deficit could be twice as big as projected, government and private analysts said today.

A big portion of tax receipts reach Washington in the weeks after the April 15 tax-filing deadline, and the analysts said it would be another week or two before a definitive tally

is available. But they said the trend so far suggests that receipts could end up as much as \$70 billion lower than expected.

A shortfall of that magnitude would equal a little less than 5 percent of anticipated revenues of \$1.42 trillion from personal and corporate income taxes. But it would roughly double the projected deficit for the current fiscal year, which after accounting for a corporate tax cut enacted last month and President Bush's request for \$27 billion in additional spending this year stands at \$73 billion, using Congressional Budget Office figures.

A \$70 billion shortfall in tax revenues, combined with deficit projections, would produce a deficit of more than \$140 billion for the fiscal year ending Sept. 30.

"It's too early to know for sure, but if these trends continue, this is bad news for the budget, no question about it," said Representative John M. Spratt Jr. of South Carolina, the senior Democrat on the House Budget Committee.

Officials at the White House and the Treasury Department declined to comment, saying it was too early to draw any conclusions about how much revenue the government would collect.

Analysts said the government has processed about two-thirds of this month's tax receipts.

If the early indications of a substantial shortfall hold up as the Internal Revenue Service finishes opening envelopes and depositing checks from taxpayers, it would suggest that last year's recession eliminated or reversed the positive revenue surprises of the last five years. For reasons that are still partly unexplained, tax receipts in much of the economic boom of the late 1990's ran at higher-than-expected levels, playing a crucial role in the swing from budget deficits to surpluses. Though

figures are still sketchy, the shortfall this year appears to be largely from nonwithheld individual tax payments, a category that includes taxes on capital gains, stock options, dividends, real estate sales and other nonwage income.

But analysts said tax refunds have also been larger than expected, suggesting that wages last year might have fallen more than other economic statistics had captured.

Economists at Goldman Sachs, the investment firm, said nonwithheld receipts appear to be running about 30 percent below projections, implying that the deficit would be \$40 billion or so higher than anticipated.

Other analysts said refunds had been running about \$20 billion more than anticipated going into April, and that revenue from withholding for some individual and corporate tax payments was about \$10 billion lower than expected. It is unclear how

much of the likely shortfall stems directly from corporate rather than individual tax payments. As a result, they said, it was possible that the total shortfall could come to about \$70 billion.

"We're getting close to the time when these numbers get pretty firm," said Jan Hatzius, an economist at Goldman Sachs. "It's trending pretty negative at this point, at a time when government spending is still on an upward path."

The government ran surpluses for the last four years. But even before this year's likely revenue shortfalls became apparent, the government was expected to be in the red for at least the next several years.

The turnabout was due to a combination of the \$1.35 trillion, 10-year tax cut signed into law last year by President Bush, the weak economy and increased government spending after the Sept. 11 terrorist attacks.

The re-emergence of deficits has had little economic impact so far. But the political implications, though

muted by the bipartisan consensus after Sept. 11 that the government should spend whatever is necessary to fight terrorism, could still be substantial.

Should the deficit grow this year, Democrats said, it would strengthen their case that last year's tax cut was fiscally irresponsible and that there was no room for the additional tax cuts the administration is seeking.

"It's bad news for those who are pushing for new tax cuts," Mr. Spratt said.

Any additional tax cuts, he said, would mean "more borrowing and more spending of the Social Security trust funds" — a theme that Democrats have already been hitting hard in an effort to beat back Republican efforts to make last year's 10-year tax cut permanent.

But Republicans are sure to use any deterioration in the fiscal outlook to argue against further increases in spending beyond what Mr. Bush has sought for the military and increased domestic security. Without referring to any revenue shortfall, Representative Jim Nussle, Republican of Iowa, the chairman of the House Budget Committee, warned members of the appropriations committees from both parties today not to tack any extra spending onto Mr. Bush's request for an additional \$27 billion to cover anti-terrorism programs through the end of the fiscal year on Sept. 30.

"If we are to reinvigorate our economy, it is imperative that we take steps to control spending," Mr. Nussle said.

*The recession may
have ended five
years of positive
revenue surprises.*

Budget Deficit for '02 May Top \$100 Billion

Projections Raised as Revenue Falls

By GLENN KESSLER
Washington Post Staff Writer

W.P.

4.26.02

Federal tax revenue is coming in significantly lower than expected, despite the improving economy, leading budget experts to nearly double the projected budget deficit for the current fiscal year.

The estimates, while preliminary, suggest that it will be much more difficult for the nation to return to budget surpluses in the next few years, and will place new pressure on Congress and the administration to trim federal spending or raise taxes.

The Congressional Budget Office earlier had predicted a deficit of \$46 billion for the 2002 fiscal year, after taking into account the slowing economy, the president's tax cut and recently passed legislation to boost the economy. But individual tax receipts are running \$40 billion below projections, and when all the receipts are collected, the projected deficit could be \$30 billion to \$70 billion higher, experts said.

Congress also is considering the president's request for a \$27 billion supplemental spending bill, though only \$10 billion to \$15 billion would be spent in this fiscal year, probably bringing the overall deficit above \$100 billion. That compares with a surplus of \$127 billion in the previous fiscal year.

The Bush administration has suggested the government might begin running a surplus again as soon as 2004. But G. William Hoagland, Republican staff director of the Senate Budget Committee, said the new numbers raise "some concern about the president's commitment to get back to balance in

2004."

Administration officials said they are closely watching the daily reports on Treasury receipts, but they were not prepared to concede a shortfall until all of the taxes paid on April 15 were recorded. Hoagland and other experts, however, said 96 percent of individual tax receipts historically have been collected by April 23, leaving little doubt the projected deficit would be higher.

"This ought to be a sobering wake-up call," said Rep. John M. Spratt Jr. (S.C.), the senior Democrat on the House Budget Committee. "This will be a deeper and more intractable deficit than we thought."

Many budget analysts had hoped the relatively quick rebound in the economy would pull the nation out of deficit financing more quickly. But tax revenue has fallen, especially in the category that includes taxes on stock sales and stock options, a major source of the budget surpluses in the late 1990s.

Some economists had cautioned that the boom in revenue from capital gains and stock options was bound to decline after the stock market retreated from the dot-com-fueled heights reached in 2000. Administration and congressional budget forecasters earlier this year had trimmed their expectations for capital gains revenue, leading to lower projected 10-year budget surpluses. But the new numbers suggest that until the market takes off again, this will not be a growing revenue source. Goldman Sachs Group Inc., the Wall Street investment firm, last week reported that April tax receipts were running 30 percent be-

low last year's level, the biggest drop since 1980.

The decline in tax revenue has long-term implications as well. Both the CBO and the Office of Management and Budget probably will have to account for the lower revenue base in the updated budget projections over the summer, which could result in grimmer 10-year budget forecasts. It would also place new scrutiny on the president's tax cut, which was crafted to phase in over 10 years on the premise that the government could expect more than \$5 trillion in budget surpluses.

Spratt said "this is bad news for the budget and for people pushing more tax cuts."

Trent Duffy, an OMB spokesman, said officials thought it was still possible to receive a late infusion of cash as the last returns are catalogued. But he said that even if trends held, officials believed this was a "one-year phenomenon" that would be reversed as soon as the economy moved back into high gear.

He said the administration was sticking with its budget plan. Even so, he added, "this is why you've got to hold down on spending. . . . If the Democrats want to raise taxes, they are welcome to propose that. If they want to cut spending, we welcome their ideas."